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SUBJECT: TURKMENISTAN: FOREIGN MINISTER OPEN-MINDED ON  
NEW ENERGY IDEAS

Classified By: CDA Richard E. Hoagland: 1.4(B), (D)

11. (C) SUMMARY: During a nearly two-hour meeting on June 4 with U.S. Special Envoy for Eurasian Energy C. Boyden Gray, Deputy Prime Minister/Foreign Minister Rashid Meredov:

-- praised U.S.-Turkmenistan energy cooperation;

-- expressed cautious interest in an idea that could by-pass the current Turkmenistan-Azerbaijan deadlock on the disputed Caspian gas field Serdar/Kyapaz and get early gas flowing West through an interconnector; and

-- reasserted that by law onshore exploitation of hydrocarbon deposits can be done only by Turkmen companies, but for the first time appeared to take on board that this law could be revised or amended.

Meredov was unusually relaxed, open, and positive. As a key adviser to President Berdimuhamedov, he does not lightly promise to consider new ideas. His willingness to do so during this meeting is reason to be encouraged. The value of very regular high-level engagement like Special Envoy Gray's cannot be overstated. Turkmenistan's evolution needs close attention. END SUMMARY.

12. (C) Foreign Minister Rashid Meredov said President Gurbanguly Berdimuhamedov, who was out of town, had asked him to convey the president's readiness to continue Turkmenistan's energy dialogue with the United States. Special Envoy C. Boyden Gray's meetings in Ashgabat offered an opportunity to share views on bilateral and regional cooperation and find "mutually acceptable solutions." Gray stressed U.S. support for upstream investment and pipeline diversification. Stating, "We want to know what we can do to help," the Special Envoy recognized that developing production takes much money and technology, and he offered to help stimulate interest in investment by U.S. and European firms.

ENERGY DIALOGUE IS YIELDING RESULTS

13. (C) Noting that bilateral energy talks have become more active and broader over the past year, Meredov said the dialogue is yielding results. U.S.-sponsored training for Turkmen specialists is leading to better contacts that will further develop the relationship. In addition, bilateral cooperation has also led to meetings between Berdimuhamedov and major U.S. petroleum firms in both Ashgabat and during the president's September 2007 visit to New York City. These contacts had led to greater understanding of each others' interests. "I am quite sure the dialogue, contacts and process of identifying priorities will yield results," Meredov stressed. He also recounted the exchange between Presidents Bush and Berdimuhamedov at the NATO summit in Bucharest, when President Bush said that, if proposals from U.S. companies were of enough interest to Turkmenistan, there will be cooperation. He recalled that President Bush also told Berdimuhamedov Turkmenistan is a sovereign country and will choose for itself what companies to work with in future. "That's healthy pragmatism," Meredov said with approval, "I'm very optimistic."

#### DEVELOPING TURKMENISTAN'S POTENTIAL

14. (C) Commenting again on the training that the United States has provided to Turkmenistan's hydrocarbon officials, Meredov said, "We have potential -- a huge potential -- but we must find a way of realizing it." Special Envoy Gray responded that U.S. companies are always available to provide assistance with training, but added that results will be better if the companies can share, as partners, in the risks and benefits. Eurasian Energy Coordinator Steven Mann noted that, in Baku on June 3, SOCAR had a very positive view of the technical capabilities of Turkmenistan's specialists, but had also noted that those specialists need to catch up with international developments. Acknowledging the need for Turkmenistan's hydrocarbon experts to constantly develop, Meredov responded, "We need to keep in pace in the development of technologies together."

#### GRAY: TURKMENISTAN NEEDS TO PROMOTE FOREIGN INVESTMENT ONSHORE

15. (C) Mann noted Turkmenistan's direction in the oil and gas sector has been very positive in the past 12-18 months. Reiterating the willingness of the United States to help, he added that some things, such as hydrocarbon development, need to be done by the private sector rather than by the U.S. government. Gray acknowledged Turkmenistan's distinction between foreign investment in its offshore and onshore fields, and urged the government to develop foreign investment onshore as well. Meredov replied that this policy is an element of Turkmenistan's strategic plan for hydrocarbon development to 2030, a document that was adopted by Turkmenistan's People's Council in 2006 and is, thus, enshrined in law. While the plan states that only Turkmenistan entities can work onshore, foreign companies are welcome to work onshore in a service capacity. The Charge added, "Except for China," drawing a laugh. Meredov stated that European companies have been extensively involved in building onshore infrastructure -- gas compression stations, pipeline and gas liquifaction installations, and those investments have already started to bring returns. Onshore, he said, foreign companies can do anything except extract hydrocarbon resources. Acknowledging the Charge's point on China National Petroleum Corporation's production sharing agreement on the right bank of the Amu Darya River, Meredov added that discussion of the agreement had begun before the strategic plan had been approved, and therefore had been allowed to go forward.

#### ASHGABAT ACTS BUT THINKS BAKU BALKS

16. (C) Meredov said Berdimuhamedov has a clear vision for delivering energy to world markets. Rather than merely making a declaration about Turkmenistan's willingness to broaden its deliveries, however, the government has actually taken action to promote implementation, including of plans to export gas across the Caspian. During the Tehran Summit of

Caspian states, Berdimuhamedov contradicted Russian President Putin by making clear a pipeline could be constructed simply with the consent of the countries involved. He has also agreed to leave the question of legal delimitation of the Caspian border for the experts to work on and to proceed with economic development plans.

17. (C) Meredov stressed that the important thing is to reach a general agreement for commercial development. Reasserting that the disputed Serdar/Kyapaz gas field belongs wholly to Turkmenistan, he told Gray Ashgabat wants to export to the West all gas extracted from the Serdar field. The government's plan is for a small pipeline (production pipeline, interconnector) to link Serdar to existing Azeri infrastructure in the Caspian so that Turkmen gas can start flowing to Europe. This would benefit both Turkmenistan and Azerbaijan. Turkmenistan has been discussing this with Azerbaijan since March, but so far Baku has not responded. Mann noted Azerbaijan's President Aliyev had told Special Envoy Gray he had been very satisfied with Berdimuhamedov's recent visit to Baku and that the relationship is growing in many positive ways. Meredov replied that Berdimuhamedov, too, is very pleased in general. He pointed out that rather than waste time by waiting for the two countries to resolve their border differences, Berdimuhamedov made his Serdar/Kyapaz proposal. Acknowledging that Berdimuhamedov had taken an important, concrete, and strategic step, the Charge emphasized that Baku had not rejected the proposal, but only has not answered yet because they are stuck on the ownership of Serdar/Kyapaz.

MANN: LIVANOV MORE FEASIBLE SHORT-TERM THAN SERDAR

18. (C) Mann agreed, stating that SOCAR is willing to buy Turkmenistan's gas at the border and will build the production pipeline itself. However, he added, SOCAR is not talking about Serdar, because developing Serdar will take 10-12 years. And if Serdar turns out to have significant gas reserves, a new pipeline would be needed from Baku to Erzerum to accommodate the Serdar gas, because the current pipeline's volume -- 20 billion cubic meters (bcm) -- will be filled by gas from Shah-Deniz (Meredov, a keen student of details, corrected that to "21 bcm"). Mann added there is a capacity for absorbing smaller volumes -- 5-10 bcm -- through different onshore options in Azerbaijan. For that reason, the United States likes the idea of transporting early gas from the Livanov field (Turkmenistan's Block I, currently worked by Petronas) and other Caspian blocks belonging to Turkmenistan. SOCAR believes that it can build the requisite infrastructure in 18-20 months, so this could be an effective first step toward giving Turkmenistan a presence in the Western market.

MEREDOV PROMISES TO CONSIDER LIVANOV IDEA

19. (C) Noting that Turkmenistan is in a new economic and political era, Mann asked why it does not extend this readiness for new thinking to the energy sector. Meredov said, "We must think about this. I'm saying this because we've been working on this for a long time. Last year when we started to discuss this possibility (of sending gas to Azerbaijan), we also said that we would need to look into it, and now we've given a concrete proposal." The proposal, he continued, has many possible variations, including the possibility of sending LNG to Europe. But it is up to Europe to decide what it wants to do. Mann summarized the results of last year's USTDA study for Kazakhstan on cross-Caspian gas options, including LNG, which produced a negative netback. Meredov appeared very interested in the explanation.

110. (C) Charge noted that when the United States first raised the possibility of transporting Caspian gas to Azerbaijan during the summer and early autumn of 2007, Meredov had also said, "I have to think about this." "Look what fundamentally new decisions your president has made to go in a very new direction since then," the Charge continued. While recognizing that the hydrocarbon development plan to 2030 was approved by the People's Council, the Charge

suggested that it could be revised in conjunction with the ongoing revision of Turkmenistan's constitution, which reportedly is to include eliminating the People's Council law-approving powers. Meredov listed the many reasons that the development plan has to remain in effect even though the People's Council is to be eliminated in its current form. The Charge said, "Any document can be revised or amended if this would be beneficial to the government and the people. So there is room sometimes to think in new ways." Nodding thoughtfully, Meredov said, "Understood."

¶11. (C) Meredov noted considerable room remains for additional cooperation in the energy sector, particularly with the United States. The idea of expanding cooperation with U.S. companies onshore is "interesting" and something that Turkmenistan must think about further. The Charge urged that President Berdimuhamedov meet with ExxonMobil, and Meredov responded that the government was considering the meeting.

¶12. (C) On the same day as this meeting Russian media reported that visiting Gazprom CEO Aleksey Miller was not received by Berdimuhamedov, despite the former's pilgrimage to the city of Turkmenbashi where the president was touring. If true, we view that as the Turkmen Government's desire to behave evenhandedly, since it was not possible to offer Special Envoy Gray a meeting -- and as a sign of Berdimuhamedov's developing confidence.

¶13. (C) COMMENT: Meredov was unusually relaxed, open, and positive. As a key adviser to President Berdimuhamedov, he does not lightly undertake to consider new ideas. His willingness to do so during this meeting is reason to be encouraged. The value of very regular high-level engagement like Special Envoy Gray's cannot be overstated. Turkmenistan's evolution needs close attention. END COMMENT.

¶14. (U) Special Envoy Gray and Coordinator Mann cleared this cable.

HOAGLAND